

Message Text

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ACTION EUR-25

INFO OCT-01 NEA-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 IO-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 AGR-20 L-03 STR-08 SS-20 NSC-07 DRC-01 XMB-07

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P 142201Z JUN 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 3013

AMEMBASSY ISLAMABAD PRIORITY

INFO AMEMBASSY DACCA PRIORITY

AMEMBASSY TOKYO

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY OSLO

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY OTTAWA

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E.O. 11652: N/A

TAGS: EFIN; EAID; PK

SUBJECT: PAKISTAN CONSORTIUM AND DEBT RELIEF

1. SUMMARY: AT SPECIAL "HEADS OF DELEGATION" MEETING
OF PAKISTAN CONSORTIUM JUNE 12, IBRD INFORMED CONSORTIUM
THAT PAKISTAN FINANCE MINISTER ACCEPTS \$650 MILLION DEBT
RELIEF OFFERED BY CONSORTIUM. GOP WANTS RELIEF SPREAD
OVER FOUR YEARS, \$175 MILLION FOR EACH OF FIRST THREE
YEARS AND \$125 MILLION FOR FOURTH YEAR. THERE WAS
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GENERAL SUPPORT BY CONSORTIUM MEMBERS TO THIS PROPOSED

FOUR-YEAR RELIEF REQUESTED BY GOP, INCLUDING U.S. DEL WITH CAVEAT U.S. PARTICIPATION WOULD NEED BE STRETCHED OUT TO APPROXIMATELY SIX-YEAR ARRANGEMENT EQUATING TO FOUR-YEAR PROPOSAL. U.S. PARTICIPATION ON THIS BASIS COULD BE MANAGED WITHIN USG INTER-AGENCY CONSTRAINT OF LIMITING DEBTS TO BE RESCHEDULED TO A.I.D. REPEAT A.I.D. "DEBT IN DISPUTE." BANK REQUESTS CREDITORS INFORM IT NLT JUNE 21 AS TO WHETHER PROPOSAL CAN BE FORMALLY ACCEPTED. ALL INDICATIONS POINT TO FINAL SETTLEMENT BY BANK REPRESENTING ALL CONSORTIUM MEMBERS PRIOR TO JUNE 30. END SUMMARY.

2. PAKISTAN ACCEPTS \$650 MILLION: IBRD CHAIRMAN INFORMED CONSORTIUM MEMBERS THAT PAKISTAN FINANCE MINISTER, SUBJECT TO CABINET CONFIRMATION, ACCEPTED CONSORTIUM \$650 MILLION DEBT RELIEF PROPOSAL ON TERMS REFLECTING 62 PERCENT GRANT ELEMENT. CHAIRMAN SAID GOP AUTHORITIES STRESSED THEIR DECISION TO ACCEPT PROPOSAL TURNED LARGELY ON GOP DESIRE REINFORCE THE EARNESTNESS OF THEIR INTENTIONS TO HONOR THEIR RESPONSIBILITIES TO CREDITORS.

3. YEARLY DISTRIBUTION OF RELIEF: PAKISTAN UNWILLING SPREAD \$650 MILLION RELIEF OR EQUIVALENT THEREOF OVER MORE THAN FOUR YEARS, AND EVEN IN FOUR-YEAR PERIOD WANTED SOME "FRONT-END LOADING" TO REALIZE MAXIMUM RELIEF. GOP PROPOSED \$175 MILLION RELIEF EACH OF FIRST THREE YEARS AND \$125 MILLION FOR FOURTH YEAR. GOP AGREED TO FLEXIBILITY, ALLOWING CREDITORS UNABLE MEET RELIEF QUOTA IN PARTICULAR YEAR TO PROVIDE COMPENSATING RELIEF (EQUIVALENT IN PRESENT VALUE TERMS) IN SUBSEQUENT YEAR OR YEARS. AS A PERCENT OF DEBT SERVICE DUE ON DEBT INCURRED PRIOR JULY 1, 1973, PROPOSED DEBT RELIEF IS 77 PERCENT IN 1975, 69 PERCENT IN 1976, 68 PERCENT IN 1977, AND 60 PERCENT IN 1978.

4. CREDITOR REACTION: CREDITORS PLEASED GOP ACCEPTANCE CONSORTIUM PROPOSAL, ATTRIBUTING MUCH CREDIT TO ROLE IBRD CHAIRMAN. NO CREDITOR OPPOSITION TO GOP PROPOSAL FOR FOUR-YEAR ALLOCATION OF RELIEF, ALTHOUGH U.S. DELEGATE NOTED NEED CONSULT WITHIN USG PRIOR FINAL LIMITED OFFICIAL USE

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ACCEPTANCE. ONLY ITALY AMONG CREDITORS UNABLE AT THIS TIME FIRMLY COMMIT ITSELF TO 62 PER GRANT ELEMENT BUT URGED TO CARRY BACK CONSORTIUM CONSENSUS.

5. SHARING OF RELIEF:

(A) STOCK OF DEBT: UNDER TERMS \$650 MILLION PACKAGE, SHARES OF RELIEF WILL BE PROPORTIONAL TO DEBT SERVICE ON STOCK OF DEBT INCURRED PRIOR 1 JULY 1973

RATHER THAN 1 JULY 1974 AS ORIGINALLY PROPOSED BY GOP.
(THIS BENEFITS U.S. AND, TO LESSER EXTENT, CANADA WITH
LARGE LOANS, E.G., EXPORT-IMPORT AND CCC, MADE SINCE
1 JULY 1973.) AGREEMENT WOULD BE EXPRESSED IN
MEMORANDUM OF UNDERSTANDING SPECIFYING THAT EACH
CREDITOR WILL PROVIDE RELIEF OF STATED PERCENT OF DEBT
SERVICE DUE. CONSORTIUM DOCUMENT AT SAME TIME WOULD
EXPRESS MEMBERS' SHARES IN MONETARY TERMS DERIVED FROM
AGREED PERCENTAGES. (U.S. ACCEPTANCE OF MEMORANDUM CAN
BE CONDITIONAL ON MONETARY SHARE REMAINING APPROXIMATELY
AT LEVEL IN THAT CONSORTIUM TABLE.) IF RELIEF GRANTED
BY APPLICATION OF PERCENT IN BILATERAL NEGOTIATIONS DOES
NOT ADD UP TO \$175 MILLION ANNUALLY FOR 3 YEARS AND
\$125 MILLION FOR THE FOURTH YEAR, PAKISTAN CAN TAKE

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P 142201Z JUN 74

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TO SECSTATE WASH DC PRIORITY 3014

AMEMBASSY ISLAMABAD PRIORITY

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MATTER TO CONSORTIUM FOR APPROPRIATE CONSIDERATION
(PRESUMABLY TO MAKE UP DIFFERENCE).

(B) SEGREGATION OF DISPUTED DEBT: U.K. "RELUCTANTLY" DROPPED PROPOSAL ADVANCED LAST MEETING (AND VIGOROUSLY OPPOSED BY U.S.) TO STRICTLY RELATE SHARES TO "DISPUTED DEBT."

(C) INDEX OF HARDNESS: CANADA ANNOUNCED UNABLE PARTICIPATE IN RELIEF OTHER THAN ON "80-20" INDEX OF LIMITED OFFICIAL USE

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HARDNESS FORMULA. THIS WOULD RESULT IN APPROXIMATELY \$2.5 MILLION SHORTFALL IN \$650 MILLION PACKAGE. CANADA CONCERNED "INDEX OF HARDNESS" PRINCIPLE IN DANGER OF BEING ABANDONED, A FEAR REINFORCED BY IBRD'S INDIA PROPOSAL WHICH PROPOSED DISCARDING PAST INDEX OF HARDNESS PROCEDURES IN FAVOR STRICTLY PROPORTIONAL FORMULA. U.S., U.K. AND NETHERLANDS REASSURED CANADA OF COMMITMENT TO "INDEX OF HARDNESS," NOTING THE UNIQUE NATURE OF PAKISTAN CASE, AND REAFFIRMING INTENTION PURSUE INDEX OF HARDNESS IN ANY INDIA RELIEF OPERATION. SWEDEN, HOWEVER, A FORMER ADVOCATE OF INDEX OF HARDNESS, NOW THOUGHT HARDNESS PRINCIPLE SHOULD BE DROPPED. ALL CREDITORS AND CHAIR URGED CANADA RECONSIDER POSITION IN ORDER PARTICIPATE FULLY IN THIS UNIQUE CASE.

6. U.S. SHARE: ACCORDING TO PRELIMINARY BANK DATA, PROPOSED U.S. SHARE OF DEBT RELIEF WOULD BE AS FOLLOWS: (IN \$ MILLIONS).

YEAR	RELIEF TOTAL	US SHARE	OF TOTAL
1974-75	175.0	56.9	32.5
1975-76	175.0	55.0	31.4
1976--7	175.0	56.9	32.4
1977-78	125.0	41.9	33.5
	650.0	210.6	32.4

7. WHAT NOW?: THE DRAFT "MEMORANDUM OF UNDERSTANDING" NEGOTIATED BETWEEN GOP AND IBRD WILL BE REVISED BY THE BANK TO REFLECT CREDITOR SUGGESTIONS AND SUBMITTED TO GOP FOR APPROVAL. TO SPEED FINAL SETTLEMENT, BANK REQUESTS CREDITORS INFORM IT NLT JUNE 21 AS TO WHETHER PROPOSAL CAN BE OFFICIALLY ACCEPTED. ALL INDICATIONS

POINT TO SETTLEMENT PRIOR TO 30 JUNE.

8. COMMENT: THE FOUR-YEAR \$650 MILLION PACKAGE,
BROKEN DOWN INTO \$175 MILLION FOR THREE YEARS AND \$125
MILLION IN THE FOURTH YEAR, IMPLIES A U.S. SHARE
TOTALING \$110 MILLION IN DISCOUNTED PRESENT VALUE.
THE DISCOUNTED PRESENT VALUE OF AID "DISPUTED DEBT"
OVER NEXT SIX YEARS IS APPROXIMATELY \$114 MILLION. THUS
\$650 MILLION PACKAGE AS IT NOW STANDS COULD BE ACCEPTED
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WITHIN USG INTER-AGENCY CONSTRAINTS, INCLUDING THAT OF
LIMITING DEBTS TO BE RESCHEDULED TO AID DEBT "IN
DISPUTE."
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